



EXECUTIVE SUMMARY

HOUSING COMMISSION EXECUTIVE SUMMARY SHEET

MEETING DATE: October 16, 2020

HCR20-096

SUBJECT: Preliminary Bond Authorization for Fourth Corner Apartments

COUNCIL DISTRICT(S): 9

ORIGINATING DEPARTMENT: Real Estate Division

CONTACT/PHONE NUMBER: Colin Miller / 619-578-7429

REQUESTED ACTION:

Take the initial steps to issue Housing Authority of the City of San Diego tax-exempt Multifamily Housing Revenue Bonds and taxable bonds to facilitate the construction of a new 75-unit affordable housing development at 4021, 4035, 4037 and 4061 Fairmount Ave (Fourth Corner Apartments). Once completed Fourth Corner Apartments will comprise 75 units (including a manager's unit) that will remain affordable for families earning between 30% and 60% of the area median income, and remain similarly affordable for 55 years.

EXECUTIVE SUMMARY OF KEY FACTORS:

- The proposed development is a 75-unit, transit oriented, affordable family rental housing, new construction project that will located at 4021, 4035, 4037 and 4061 Fairmount Ave street in the City Heights neighborhood of Council District 9.
- The development includes 55 two bedroom and 20 three bedroom apartments. All units (excluding the manager's unit) restrict rents to 30 – 60 percent of San Diego Area Median Income.
- Wakeland Housing and Development Corporation is the developer, and is seeking preliminary approvals to issue up to \$27,000,000 in tax-exempt Multifamily Housing Revenue Bonds and up to \$5,800,000 of taxable bonds.
- No Housing Commission loan proceeds will be provided to this development.
- Total development cost of the development is \$40,519,820.
- Staff requests the Housing Commission Board recommend to the Housing Authority approval of the following steps:
 - Issue a bond inducement resolution for up to \$27,000,000 in Multifamily Revenue Bonds and \$5,800,000 of taxable bonds, totaling \$32,800,000.
 - Authorize an application to the California Debt Limit Allocation Committee.
 - Approve a financing team of Squire Patton & Boggs as Bond Counsel and Ross Financial as Financial Advisor.
 - Request the City Council hold a Tax Equity and Fiscal Responsibility Act public hearing to adopt a resolution approving the issuance of the tax-exempt bonds.
- If approved, the developer could commence construction in July 2021 and complete construction by December 2022.



REPORT

DATE ISSUED: October 8, 2020

REPORT NO: HCR20-096

ATTENTION: Chair and Members of the San Diego Housing Commission
For the Agenda of October 16, 2020

SUBJECT: Preliminary Bond Authorization for Fourth Corner Apartments

COUNCIL DISTRICT: 9

REQUESTED ACTION

Take the initial steps to issue Housing Authority of the City of San Diego tax-exempt and taxable Multifamily Housing Revenue Bonds to facilitate the construction of a new affordable housing development at 4021, 4035, 4037 and 4061 Fairmount Ave. (Fourth Corner Apartments) in the City Heights neighborhood, which will consist of 74 units affordable for 55 years for low- and extremely low-income families and one unrestricted manager's unit.

STAFF RECOMMENDATION

That the San Diego Housing Commission (Housing Commission) recommend the Housing Authority of the City of San Diego (Housing Authority) and the San Diego City Council (City Council) take the following actions, as described in this report.

Housing Authority:

- 1) Approve the following preliminary steps to issue Housing Authority tax-exempt Multifamily Housing Revenue Bonds to facilitate the construction of a new affordable housing development at 4021, 4035, 4037 and 4061 Fairmount Ave. (Fourth Corner Apartments) in the City Heights neighborhood, which will consist of 74 units affordable for 55 years for low- and extremely low-income families and one unrestricted manager's unit:
 - a. Issue a bond inducement resolution (Declaration of Official Intent) for up to \$27,000,000 in tax-exempt Multifamily Housing Revenue Bonds and up to \$5,800,000 in taxable bonds supporting the development of Fourth Corner Apartments by a limited partnership formed by Wakeland Housing and Development Corporation;
 - b. Authorize an application (and subsequent applications, if necessary) to the California Debt Limit Allocation Committee (CDLAC) for an allocation of authority to issue tax-exempt private activity bonds in an amount up to \$27,000,000 for Fourth Corner Apartments; and
 - c. Approve the financing team of Squire Patton & Boggs as Bond Counsel and Ross Financial as Financial Advisor; and
- 2) Authorize the Housing Commission's President & Chief Executive Officer (President & CEO), or designee, to execute any and all documents that are necessary to effectuate the transaction and implement these approvals in a form approved by General Counsel and Bond Counsel, and to take such actions as are necessary, convenient, and/or appropriate to implement these approvals upon advice of General Counsel and/or the Bond Counsel.

City Council:

Hold a Tax Equity and Fiscal Responsibility Act (TEFRA) public hearing and adopt a resolution approving the issuance of Multifamily Housing Revenue Bonds in an amount up to \$27,000,000 to facilitate the development of Fourth Corner Apartments.

SUMMARY

A development summary is included as Attachment 1.

Table 1 – Development Details

Address	4021, 4035 4037, 4061 Fairmount Ave.
Council District	Council District 9
Community Plan Area	City Heights Area Planning Committee
Developers	Wakeland Housing & Development Corporation
Development Type	New Construction
Construction Type	Type IA and Type VA
Parking Type	67 spaces
Housing Type	Affordable Transit-Oriented Development, Family
Lot Size	23,766 square feet
Units	75
Density	137 units/acre
Unit Mix	55 two-bedroom, 20 three-bedroom
Gross Building Area	128,048 square feet
Net Rentable Area	74,343 square feet

The Development

Fourth Corner Apartments is a 75-unit, transit-oriented, new construction, affordable housing development, located on a 23,766-square-foot lot incorporating 4021, 4035, 4037 and 4061 Fairmount Ave., San Diego, CA 92105. The development is a partnership between Wakeland Housing and Development Corporation, an experienced San Diego-based developer of affordable housing, and Price Philanthropies, a San Diego-based philanthropy focusing on improving the lives of City Heights residents. A vacant commercial building is on one of the subject lots (4061 Fairmount Ave.), which will be demolished as part of the development.

Once completed, Fourth Corner Apartments will be composed of 75 rental units in a single wood-frame structure, sitting atop a first-floor concrete and steel parking structure. Fourth Corner Apartments will continue The Price Charities’ focus on larger units, with bedroom accommodations for the larger family sizes common in San Diego’s center city. Fifty-five of the units will feature two bedrooms, and the remaining 20 will feature three bedrooms. Of the 75 units, 74 will remain affordable for 55 years to low- and extremely low-income families with income between 30 percent and 60 percent of San Diego Area Median Income (AMI). Construction types will include Type 1 concrete and steel on the first floor, supporting four stories of wood-frame construction.

The project site is located near the intersection of Fairmount and University Avenues in the heart of City Heights. Within a 10-minute walk are The Price Charities Building, a seven-story office complex, the County of San Diego Administration Building and multiple nonprofit and public agencies providing medical, dental, youth-oriented, public benefit supports and other services to households with low or moderate income. Nearby amenities include multiple restaurants, grocery stores, pharmacy options, the La Maestra Community Health Clinic, Rosa Parks Elementary School, The City Heights Recreational Center, and the public library.

Because the development site is adjacent to or within a short walk of several major bus lines, including the San Diego Metropolitan Transit System's (MTS) Rapid I-15 express service, residents will be encouraged to incorporate mass transit as part of their transportation plans. Developers plan to include 67 parking spaces for its 75 apartment units.

Project Sustainability

Fourth Corner Apartments will be built as Green Point Rated with an anticipated Gold Rating standard and will comply with the CTCAC minimum energy efficiency construction standards for new construction. The project's features will include: Energy Star-rated efficient appliances, dual-glazed windows coated for limited solar heat gain, low-energy lighting, HVAC systems that utilize energy efficient heat pumps, use of Low Volatile Organic Compound (VOC) paints and stains for interior surfaces, and the roof design is focused on optimizing square footage to allow maximum area to install the Solar Photovoltaic system. The designed Solar Photovoltaic system is intended to offset the house load, including all or part of domestic hot water. Water conservation will be promoted via low-water-use fixtures in kitchens and bathrooms, low-flow toilets, and low-water-use native-plants landscaping with water-efficient irrigation controls

Development Team

The development team will be led by Wakeland Housing and Development Corporation, a nonprofit developer founded in San Diego in 1998. The project sponsor is Wakeland Price Fourth Corner LP, whose managing general partners is Wakeland Price Fourth Corner LLP, a subsidiary of Wakeland Housing and Development Corporation (Wakeland).

Wakeland currently has more than 5,600 units of affordable housing in its portfolio in 40 communities throughout California. The Housing Commission has worked with Wakeland on several successful projects. Recently completed projects include the 44-unit Beacon Apartments, 205-unit Atmosphere apartments, and the 132-unit scattered sites City Heights Ten rehabilitation project.

A Developer Disclosure Statements for Wakeland is provided as Attachment 3.

Wakeland plans to use Dess Partners as the architects and Sun Country Builders as the general contractor. Dess Partners is an architecture firm with a track record of completing multifamily residential, mixed-use, commercial, and historic infill developments in San Diego. Recent projects include Kalos Apartments and the 10th and B project. Founded in 1979, Sun Country Builders is an experienced, Carlsbad-based builder of multifamily housing. They are a frequent general contractor partner for affordable housing developers across Southern California and have extensive experience working with low-income housing tax credits and tax-exempt bond-financed developments.

Fourth Corner will be managed by ConAm Management Corporation (ConAm). Established in 1975, ConAm is a nationwide management company with a management portfolio of approximately 53,000 units in more than 26 metropolitan areas. ConAm is experienced in property management, marketing, leasing, maintenance, renovations, and tax credit developments. ConAm manages 34 developments for CHW. CHW’s Asset Management Department will oversee ConAm.

Other members of the development team, including the administrative general partner, the tax credit investor, any limited partners, and the construction lender, will be determined prior to final bond approval and the close of construction finance as required.

Table 2 - Development Team Summary

<u>ROLE</u>	<u>FIRM/CONTACT</u>
Developers	Wakeland Housing and Development Corporation
Owner/Borrower	Wakeland Price Fourth Corner LP
Managing General Partner	Wakeland Price Fourth Corner LLC
Administrative General Partner	TBD
Tax Credit Investor Limited Partner	TBD
Architect	Dess Partners Architecture
General Contractor	Sun Country Builders
Property Management	Con Am Management Corporation
Construction and Permanent Lender	TBD

Financing Structure

The Fourth Corner Apartments development has an estimated total development cost of \$40,519,820. Financing for the project will include Multifamily Housing Revenue Bonds, private bank debt, 4 percent federal low-income housing tax credits, a land contribution from Price Charities, and a \$14,250,000 contribution from Price Charities.

No Housing Commission loan proceeds will be provided to this development.

Estimated permanent sources and uses of financing are provided in Table 3. The developer’s project pro forma is provided as Attachment 4.

Table 3 – Fourth Corner Apartments Estimated Sources and Uses of Financing

Financing Sources	Amounts	Financing Uses	Amounts	Per Unit
Permanent Loan	\$8,798,000	Land acquisition:	\$4,330,000	\$57,733
4% Tax Credit Equity	\$13,321,820	Construction costs \$25,594,764	\$26,927,388	\$359,032
		Contingency + \$1,332,624		
		Total construction \$26,927,388		
Price Charities Contribution	\$14,250,000	Financing costs	\$2,115,058	\$28,201
Price Charities Land Donation	\$4,150,000	Other soft costs	\$3,337,711	\$44,503
		City permits and impact fees	\$2,145,000	\$28,600
		Developer’s fee	\$1,400,000	\$18,667
		Reserves	\$264,663	\$3,529
Total Sources	\$40,519,820	Total Uses	\$40,519,820	\$540,264

Developer Fee

The planned net cash developer fee shall be \$1,400,000 in compliance with CTCAC and CDLAC regulations.

On April 25, 2017, the Housing Authority approved the “Request for Approval of Updated Developer Fees” (Report No. HAR17-011; Resolution No. HA-1727). That report approved certain developer fee guidelines for multifamily loans and bond issuances. Attachment 1 to that report stated: “Developer Fee [for] 4% tax credits, in project costs: 15% eligible basis....” The developer is proposing a \$2,840,281 preliminary developer fee associated with the residential portion of development, which complies with HAR17-011. The proposed fee is in conformance with the “Request for Approval of Updated Developer Fees” guidelines approved by the Housing Authority on April 25, 2017.

Prevailing Wages

The proposed project is not subject to payment of state or federal prevailing wages.

Development Cost Key Performance Indicators

Housing Commission staff has identified development cost performance indicators, which were used to evaluate the proposed development. The key performance indicators listed in Table 4 are commonly used by real estate industry professionals and affordable housing developers.

Table 4 – Key Performance Indicators

Development Cost Per Unit	\$40,519,820 ÷ 75 units	\$540,264
Housing Commission Subsidy Per Unit	NA	\$0
Acquisition Cost Per Unit	\$4,330,000 ÷ 75 units	\$57,733
Gross Building Square Foot Hard Cost	\$26,927,388 ÷ 128,048 SF	\$210
Net Rentable Square Foot Hard Cost	\$26,927,388 ÷ 74,343 SF	\$362

Project Comparison Chart

Multiple factors and variables influence the cost of developing multifamily affordable housing, including but not limited to project location, site conditions, site improvements needed, environmental factors, land use approval process, community involvement, construction type, design requirements/constraints, economies of scale, City impact fees, developer experience and capacity, and amenities necessary to gain tax credit approval.

Table 5 shows a comparison of the subject property and other developments of the same construction type.

Table 5 – Comparable Development Projects

Development	Year	Construction Type	Unit	Prevailing Wage	Total Development Cost	Per Unit TDC	SDHC Subsidy	Gross Building Hard Cost per Square Foot
Subject – Fourth Street Apartments	2020	V over I	75	No	\$40,519,820	\$540,264	\$0	\$210
East Block Family	2019	III	78	Yes	\$41,579,692	\$533,073	\$0	\$214
Keeler Court	2019	V	71	Yes	\$35,692,466	\$575,941	\$0	\$304
Ulric Street II	2020	V	60	Yes	\$32,004,521	\$533,409	\$67,9177	\$301

Factors having an upward effect on the residential cost per unit for Fourth Corner Apartments include higher construction costs tied to its infill location within a dense urban area, the relatively large size of the units (150 square feet larger than TCAC minimums), greater than average number of bedrooms per unit, and parking accommodations that exceed regulatory [requirements to address community concerns](#). Despite these factors the gross building hard cost per square foot compares favorably with similar recent developments.

Proposed Housing Bonds

The Housing Commission utilizes the Housing Authority’s tax-exempt borrowing status to pass on lower interest rate financing (and make 4 percent low-income housing tax credits available) to developers of affordable rental housing. The Housing Authority’s ability to issue bonds is limited under the U.S. Internal Revenue Code. To issue bonds for a development, the Housing Authority must first submit an application to CDLAC for a bond allocation. Prior to submitting applications to CDLAC, developments are brought before the Housing Commission, Housing Authority and City Council. Housing Authority bond inducement resolutions must be obtained prior to application submittal, and City Council TEFRA resolutions must be secured no later than 30 days after application submittal. These actions do not obligate the Housing Authority to issue bonds.

The developer plans to submit a bond allocation application to CDLAC in November 2020 for a January 2021 bond allocation meeting; however, if necessary, staff will submit additional applications to CDLAC to secure a bond allocation for the development.

The developer will be seeking a CDLAC bond allocation of approximately \$23,200,000. The developer proposes to have the Housing Authority issue the bonds through a tax-exempt private placement bond issuance. The bonds will meet all requirements of the Housing Commission’s Multifamily Housing Revenue Bond Program policy and will fully comply with the City of San Diego’s (City) ordinance on bond disclosure.

The developer proposes that the bonds will be used to provide construction and permanent financing for the project. Housing Commission staff will later return to both the Housing Commission and Housing Authority for approval of the final bonds and transaction documents. A general description of the Multifamily Housing Revenue Bond Program and the actions that must be taken by the Housing Authority and by the City Council to initiate and finalize proposed financings are described in Attachment 5.

Staff recommends assigning Squire Patton Boggs as Bond Counsel and Ross Financial as Financial Advisor to work on the development. The proposed financing team members have been selected in accordance with the existing policy for the issuance of bonds. Financial Advisors and Bond Counsels are selected in accordance with the Housing Commission’s Bond Policy.

AFFORDABLE HOUSING IMPACT

Under the proposed bond financing, Fourth Corner Apartments would restrict eight units to households with income at or below 30 percent of the San Diego Area Median Income (AMI), 15 units at or below 45 percent of AMI, 30 units at or below 50 percent of AMI, and the remaining 21 affordable units at or below 60 percent of AMI. The affordable units will be restricted for a 55-year term.

Table 6 – Fourth Corner Apartments Affordability & Monthly Estimated Rent Table

<u>Unit Type</u>	<u>AMI</u>	<u>Number of Units</u>	<u>Gross Rents</u>
2BR/2BA	30%	6	\$780
2BR/2BA	45%	11	\$1,170
2BR/2BA	50%	22	\$1,300
2BR/2BA	60%	15	\$1,560

3BR/2BA	30%	2	\$901
3BR/2BA	45%	4	\$1,351
3BR/2BA	50%	8	\$1,501
3BR/2BA	60%	6	\$1,802
Manager	NA	1	-
Total Units	-	75	-

Development Schedule

The estimated development timeline is as follows.

Milestone	Fourth Corner
Housing Authority Preliminary Bond Authorization and City Council TEFRA Hearing	November 10, 2020
Planning Commission Hearing	January 2021
CTCAC/CDLAC application	January 2021
Start Construction	July 2021
Complete Construction	December 2022

FISCAL CONSIDERATIONS

The proposed funding sources and uses approved by this action are not included in the Fiscal Year (FY) 2021 Housing Commission Budget. Approving this action will increase the FY 2021 total budget.

Funding sources approved by this action will be as follows:

Bond Issuance Fees - \$82,000 (.0025 bond issuer fee x \$,000,000)

Funding uses approved by this action will be as follows:

Administration Costs - \$82,000

Approval of the bond inducement and TEFRA resolutions does not commit the Housing Authority to issue the bonds. The bonds would not constitute a debt of the City. If bonds are ultimately issued for the development, the bonds will not financially obligate the City, the Housing Authority or the Housing Commission because security for the repayment of the bonds will be limited to specific private revenue sources of the development. Neither the faith and credit nor the taxing power of the City or the Housing Authority would be pledged to the payment of the bonds. The developer is responsible for the payment of all costs under the financing, including the Housing Commission annual administrative fee, as well as Housing Commission Bond Council and Financial Advisor fees.

COMMUNITY PARTICIPATION and PUBLIC OUTREACH EFFORTS

On August 3, 2020, the Fourth Corner Apartments project was presented before the City Height Area Planning Committee. The projected was approved by 15 to 1 vote.

KEY STAKEHOLDERS and PROJECTED IMPACTS

Stakeholders include Wakeland Housing and Development Corporation, Price Charities, and the residents of the City Heights communities. The project is anticipated to have a positive impact on the community, as it will contribute to the quality of the surrounding neighborhood and create 74 new affordable rental homes for families with low income.

ENVIRONMENTAL REVIEW

This activity is not a “project” and is therefore not subject to the California Environmental Quality Act (CEQA) pursuant to State CEQA Guidelines Section 15060(c)(3). This determination is predicated on Section 15004 of the Guidelines, which provides direction to lead agencies on the appropriate timing for environmental review. This action does not constitute approval of a project. Approval will occur once the environmental review has been completed in accordance with CEQA Section 15004. This action will not foreclose review of alternatives or mitigation measures by the public as part of the CEQA process. The proposed actions are approval of preliminary steps to issue bonds and do not constitute approval of the development activity or authorization for the issuance of bonds. Future actions to consider and approve development entitlement approvals related to the future development of the site will require additional review under the provisions of CEQA by the lead agency. Processing under the National Environmental Policy Act (NEPA) is not required as no federal funds are involved in this action.

Respectfully submitted,



Kwofi Reed
Housing Programs Manager
Multifamily Housing Finance
Real Estate Division

Approved by,



Jeff Davis
Executive Vice President & Chief of Staff
San Diego Housing Commission

- Attachments: 1) Development Summary
2) Site Map
3) Developer Disclosure Statements
4) Developer’s Project Sources and Uses Pro forma
5) Multifamily Housing Revenue Bond Program

You may review docket materials in the “Governance & Legislative Affairs” section of the San Diego Housing Commission website at www.sdhc.org